Weekly Economic Review

Bank of Canada cuts rate amid lower oil prices

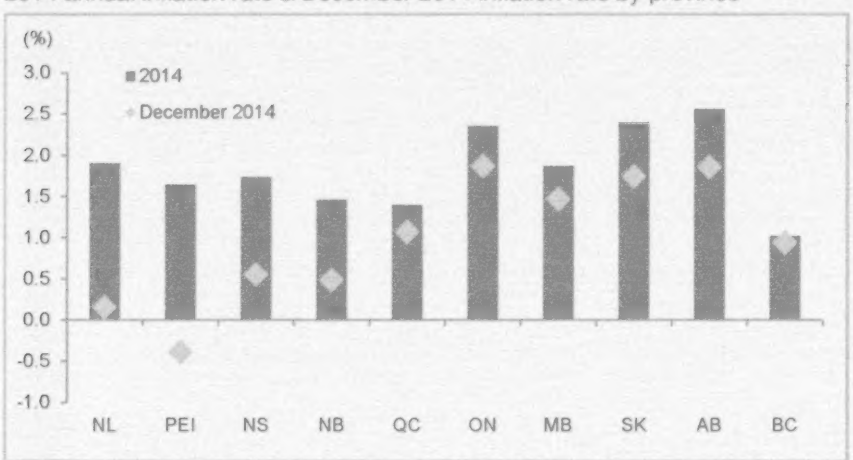
Monetary Policy Report

Oil shock prompts rate cut

The Bank of Canada unexpectedly lowered its target overnight interest rate by 0.25 percentage points to 0.75%. The move was spurred by the sharp plunge in oil prices and the expected negative impact on Canada's trade revenues, economic growth and inflation. Business investment, government revenues and employment from Canada's energy sector will weaken as a result of the shock, according to the Bank. The cut was described as a form of "insurance" meant to shore up the Canadian economy and to maintain inflation within the targeted range. The Bank lowered its 2015 growth forecast for the Canadian economy by 0.3 percentage points to 2.1% and expects growth of 2.4% in 2016. Since the announcement, the Loonie has declined by over 2 cents and equity markets have rallied.

Chart 1: 2014 inflation rate highest in Alberta despite December low

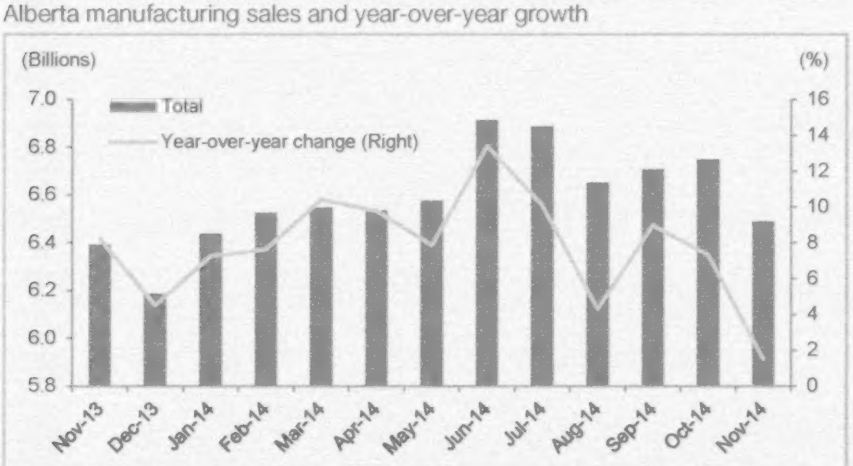
2014 annual inflation rate & December 2014 inflation rate by province



Source: Statistics Canada

Chart 2: Manufacturing sales fall, but remain slightly above last year's level

Alberta manufacturing sales and year-over-year growth



Source: Statistics Canada

Consumer Price Index (CPI)

Inflation ends the year lower

December's inflation rate increased by 1.9% from December 2013, the lowest monthly reading of 2014. Sharply lower gasoline prices were balanced by higher food and shelter costs. Rising natural gas and homeowners' insurance added to shelter costs, while non-poultry meat and fresh vegetable prices drove increases in food prices in December. For 2014, inflation in Alberta averaged 2.6% despite weakness to end the year. This was highest annual average across the provinces (Chart 1),

Nationally, the headline inflation rate declined in December to 1.5%, but the Bank of Canada's Core inflation measure held at the higher rate of 2.2%. Overall in 2014, Canadian headline inflation averaged 2.0%, hitting the Bank of Canada's target.

Manufacturing Sales

Sales dip

Alberta's manufacturing sales fell 3.8% in November compared with October, but remained up 1.5% year-over-year (y/y) (Chart 2). Food sales increased 14.1% y/y, which was more than enough to offset a 4.1% decline in petroleum and coal sales. Both moves

were driven by price effects, with gas prices down 4.1% y/y in November and meat prices up 15.8%. Durable goods manufacturing was down slightly as sales of fabricated metals, machinery and transportation equipment were all down around 5%, which more-than-offset strong gains in plastics and computer and electronic equipment.

Retail Sales

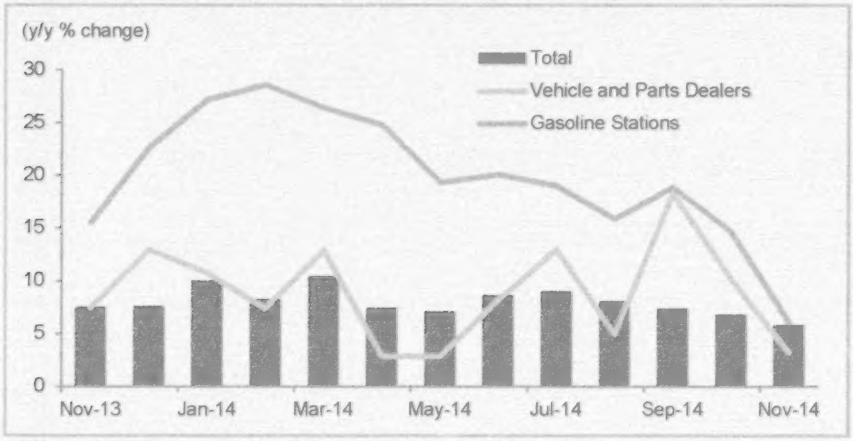
Sales growth slips

Retail sales in Alberta were $6.6 billion in November, down 0.6% from October, but up 5.8% y/y. This was the lowest year-over-year growth so far in 2014. The main contributor to the year-over-year increase was general merchandise stores, such as department stores. Growth from gasoline stations and motor vehicle & parts dealers continued to add to growth, but at lower rates than over most of 2014 (Chart 3). Through November, sales were up 8.0% in 2014.

Canadian retail sales were $43.0 billion in November, an increase of 0.4% from October and 4.8% from November 2013.

Chart 3: Vehicle & parts dealers and gas stations sales add less to sales growth

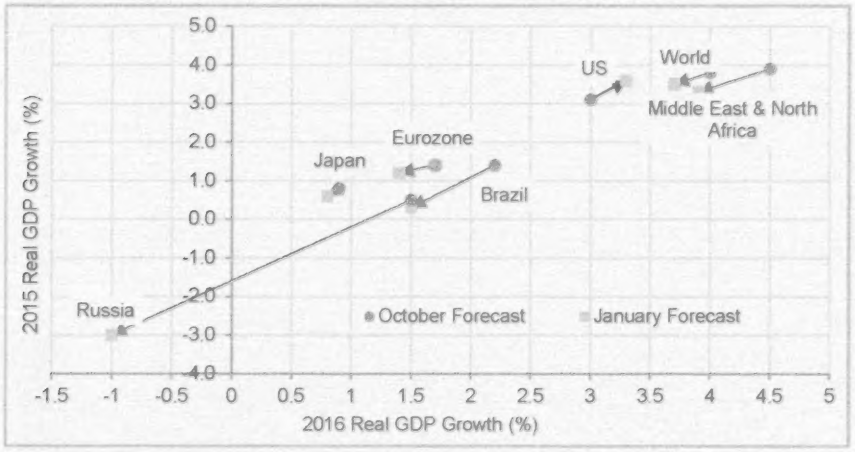
Year-over-year growth in Alberta retail sales and sub-industry



Source: Statistics Canada

Chart 4: The US is swimming upstream

Revisions to the IMF forecast for select countries and regions



Source: International Monetary Fund (IMF)

Job vacancies

Vacancies persist

There were 52,400 vacant positions in Alberta during the three months ending in October, a small increase of 1,800 positions compared with the same three month period in 2013. The proportion of positions that were unfilled was 2.5% in the same period, which was relatively unchanged from the previous period.

The job vacancy rate for Canada was 1.7%, up slightly from the previous period.

IMF World Economic Outlook

US drives global economy

The IMF lowered its forecast for global growth to 3.5% for 2015, and 3.7% for 2016. The US economy is expected to be one of the lone bright spots, with expected growth of 3.6% this year. Russia, Japan, the Eurozone and oil-exporting economies will likely struggle, pulling down global growth prospects (Chart 4). The current IMF forecast has been updated to reflect plummeting oil prices, diverging growth rates among advanced economies, the appreciation of the US dollar, and rising interest rates differentials across most advanced and emerging markets.

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Please see the *Alberta Economy- Indicators at a Glance* for a snapshot of Alberta indicators.